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**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this document or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **China Star Entertainment Limited** (the “**Company**”), a company incorporated in Bermuda with limited liability, the shares of which (the “**Shares**”) are listed on the Main Board of the Stock Exchange, you should at once hand this document and the accompanying election form (the “**Election Form**”) to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

Copies of this document and the Election Form have been registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Registrar of Companies in Hong Kong and the Securities and Futures Commission of Hong Kong take no responsibility for the contents of any of these documents.

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Subject to the granting of the listing of, and permission to deal in, the Bonus Shares (as defined in this document) and any new shares in the Company which may fall to be issued upon exercise of the conversion rights under the Bonus CBs (as defined in this document), as well as compliance with the stock admission requirements of HKSCC (as defined in this document) (if applicable), the Bonus Shares and any new shares in the Company which may fall to be issued upon exercise of the conversion rights under the Bonus CBs will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS (as defined in this document) with effect from their respective commencement dates of dealings on the Stock Exchange (as defined in this document) or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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## **CHINA STAR ENTERTAINMENT LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 326)**

**(Warrant Code: 1056)**

### **BONUS ISSUE OF SHARES AND ISSUE OF BONUS CBs TO FULFILL THE MINIMUM PUBLIC FLOAT REQUIREMENT**

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All capitalised terms on this cover page shall have the same meanings as those defined in this document.

The Election Form is enclosed. Qualifying Shareholders who wish to receive their entitlements under the Bonus Issue wholly in the Bonus CBs or partly in Bonus Shares and partly in Bonus CBs in lieu of Bonus Shares should read carefully the instructions as set out in this document and the instructions printed on the Election Form. The Election Form should be received by the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. (Hong Kong time) on Wednesday, 2 January 2013 or such later time(s) and, or date(s) as the Company may determine and announce as and when appropriate.

12 December 2012

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## EXPECTED TIMETABLE

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*Set out below is a timetable for the Bonus Issue which may be subject to change. The Company will notify the Shareholders of any changes to the following timetable as and when appropriate.*

### 2012

Despatch of this document together with the Election Form . . . . . Wednesday, 12 December

### 2013

Latest date and time for returning the Election Form for  
the Bonus Issue . . . . . 4:30 p.m. on Wednesday, 2 January

Announcement of the results of election of the Bonus CBs . . . . . On or before 8:30 a.m. on  
Friday, 4 January

Despatch of certificates for the Bonus Shares and Bonus CBs . . . . . On or about Wednesday,  
9 January

First day of dealings in the Bonus Shares . . . . . 9:00 a.m. on Thursday, 10 January

*Note: All times refer to Hong Kong local time in this document.*

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## DEFINITIONS

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*In this document, unless the context otherwise requires, the following expressions have the following meanings:*

“Announcement”	the announcement of the Company dated 20 November 2012 issued by the Company in connection with the Bonus Issue
“Board”	the board of Directors
“Bonus CB(s)”	the new convertible bond(s) to be constituted by the Deed Poll and to be issued by the Company pursuant to the Bonus Issue to Shareholders electing to receive such new convertible bond(s) in lieu of their entitlements to the Bonus Shares
“Bonus CB Holder(s)”	holder(s) of the Bonus CB(s)
“Bonus Issue”	the issue of the Bonus Shares by the Company on the basis of two (2) Bonus Shares for every one (1) existing Share held by the Qualifying Shareholders with the option to elect to receive the Bonus CBs in lieu of all or part of their entitlements to the Bonus Shares
“Bonus Share(s)”	new Share(s) to be issued pursuant to the Bonus Issue
“Business Day”	any day (excluding a Saturday or Sunday and any day on which a tropical cyclone warning signal no. 8 or above or a “black” rainstorm warning signal is hoisted or remains hoisted in Hong Kong at any time between 9:00 a.m. to 5:00 p.m.) on which banks are generally open for business in Hong Kong
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Close of Offer Announcement”	the announcement of the Company dated 9 November 2012 relating to the close of the Offer and status of public float of the Company
“Company”	China Star Entertainment Limited, an exempted company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Deed Poll”	the deed poll and any other documents (as from time to time altered in accordance with such deed poll and/or other documents) to be executed by the Company in order to provide for and to protect the rights and interests of the Bonus CB Holders
“Directors”	the directors of the Company

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## DEFINITIONS

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“Dorest”	Dorest Company Limited, an investment holding company beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung. The 13,702 Shares held by Dorest are under a charging order and Dorest is the registered shareholder and has the voting right. These 13,702 Shares are under a charging order imposed by the liquidator of C.A. Pacific Finance Limited which is in liquidation
“Election Form”	the election form despatched together with this document to the Qualifying Shareholders for them to elect to receive the Bonus CBs in lieu of all or part of their entitlements to the Bonus Shares
“Excluded Shareholder(s)”	those Overseas Shareholder(s) whom the Directors, having made enquiries pursuant to Rule 13.36(2) of the Listing Rules, consider it necessary or expedient not to issue the Bonus Shares and/or the Bonus CBs on account either of legal restrictions under the laws of the relevant jurisdiction or the requirements of the relevant regulatory body or stock exchange in that jurisdiction
“Eternity”	Eternity Investment Limited (stock code: 764), an exempted company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange and the single largest shareholder of which is Twin Success International Limited holding approximately 29.61% of its issued share capital as at the Latest Practicable Date
“Eternity Finance”	Eternity Finance Group Limited (formerly known as Wingo Consultants Limited), a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Eternity
“Group”	the Company together with its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HWKFE”	Heung Wah Keung Family Endowment Limited, an investment holding company incorporated in the British Virgin Islands with limited liability and beneficially owned as to 50% by Mr. Heung and as to 50% by Ms. Chen

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## DEFINITIONS

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“Issued CBs”	the convertible bonds in the aggregate principal amount of HK\$350.00 million carrying rights entitling the holders thereof to convert their principal amount into 2,916,666,666 new Shares at an adjusted conversion price of HK\$0.12 per Share (subject to further adjustment, if required) as at the Latest Practicable Date
“Latest Practicable Date”	Friday, 7 December 2012, being the latest practicable date prior to the printing of this document for ascertaining certain information contained in this document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Heung”	Mr. Heung Wah Keung, an executive Director, a substantial Shareholder and the spouse of Ms. Chen
“Mr. Lei”	Mr. Lei Hong Wai, an employee of the Company, the chairman of the board of directors of Eternity, an executive director of Eternity and a substantial shareholder of Eternity by virtue of his 50% shareholding interest in Twin Success International Limited
“Ms. Chen”	Ms. Chen Ming Yin, Tiffany, an executive Director, a substantial Shareholder and the spouse of Mr. Heung
“Offer”	the conditional cash offer made by Get Nice Securities Limited on behalf of the Company to repurchase for cancellation up to 887,901,665 Shares at HK\$0.35 per Share which closed on 9 November 2012
“Overseas Shareholder(s)”	Shareholders whose address(es) as shown on the Register on the Record Date is(are) outside Hong Kong
“Qualifying Shareholder(s)”	Shareholder(s), other than the Excluded Shareholders, whose names appear on the Register at the close of business on the Record Date
“Record Date”	6 December 2012, being the record date for the purpose of ascertaining the entitlements of the Shareholders to the Bonus Issue
“Register”	the register of members of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued and unissued share capital of the Company

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## DEFINITIONS

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“Shareholder(s)”	registered holder(s) of the issued Share(s)
“Share Options”	share options granted by the Company outstanding from time to time (being 8,928,594 outstanding share options exercisable into 8,928,594 new Shares at exercise prices ranging from HK\$1.848 to HK\$40.714 per new Share (subject to further adjustment, if required) as at the Latest Practicable Date)
“SGM”	the special general meeting of the Company held on Thursday, 25 October 2012
“Simple View”	Simple View Investment Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Eternity
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Unissued CBs”	the convertible bonds in principal amount of HK\$300.00 million to be issued by the Company to Eternity, which is subject to conditions precedent and yet to be completed, details of which are set out in the announcement dated 9 February 2011 jointly issued by the Company and Eternity and the circular of the Company dated 1 April 2011
“Victory Peace”	Victory Peace Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Eternity
“Warrants”	the listed warrants (warrant code: 1056) outstanding from time to time (being an aggregate principal amount of HK\$3,250,230.84 entitling the holders thereof to subscribe for 47,104,794 new Shares at an adjusted subscription price of HK\$0.069 per Share (subject to further adjustment, if required) as at the Latest Practicable Date) and exercisable at any time during the period from 29 June 2011 to 28 December 2012 (both days inclusive) pursuant to the warrant instrument issued by the Company on 29 June 2011
“%”	per cent.

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## LETTER FROM THE BOARD

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# CHINA STAR ENTERTAINMENT LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 326)**

**(Warrant Code: 1056)**

*Executive Directors:*

Mr. Heung Wah Keung

Ms. Chen Ming Yin, Tiffany

Ms. Li Yuk Sheung

*Independent non-executive Directors:*

Mr. Hung Cho Sing

Mr. Ho Wai Chi, Paul

Mr. Tang Chak Lam, Gilbert

*Registered office:*

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

*Head office and principal place  
of business in Hong Kong:*

Unit 3409 Shun Tak Centre

West Tower

168-200 Connaught Road Central

Hong Kong

12 December 2012

*To the Shareholders and for information only,  
the holders of the Warrants, Issued CBs and Share Options*

Dear Sir/Madam,

### **BONUS ISSUE OF SHARES AND ISSUE OF BONUS CBs TO FULFILL THE MINIMUM PUBLIC FLOAT REQUIREMENT**

#### **INTRODUCTION**

As mentioned in the Announcement, the Board has resolved to implement the Bonus Issue, being a bonus issue of new Shares, credited as fully-paid, on the basis of two (2) Bonus Shares for every one (1) existing Share held by the Qualifying Shareholders on the Record Date in order to comply with Rule 8.08(1)(a) of the Listing Rules.

The purpose of this document is to set out further information in relation to the Bonus Issue (including the option to elect to receive the Bonus CBs in lieu of all (or part) of their entitlements to the Bonus Shares).



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## LETTER FROM THE BOARD

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A summary of the principal terms and conditions of the Bonus CBs, including circumstances in which the Bonus CBs can be converted, is set out in the Appendix on pages 20 to 31 of this document.

### **BONUS ISSUE**

#### **Basis of Bonus Issue**

Pursuant to the mandate granted by the Shareholders at the SGM, the Board has resolved to implement the Bonus Issue, being a bonus issue of new Shares, credited as fully-paid, on the basis of two (2) Bonus Shares for every one (1) existing Share held by the Qualifying Shareholders on the Record Date in order to comply with Rule 8.08(1)(a) of the Listing Rules. The Bonus Issue will be effected by way of capitalisation of an amount standing to the credit of the Company's contributed surplus account.

Each Qualifying Shareholder will be given an option to elect to receive the Bonus CBs in lieu of all (or part) of his/her/its entitlements to the Bonus Shares under the Bonus Issue. The amount of Bonus CBs which the Qualifying Shareholders (other than the Excluded Shareholders) are entitled to receive in lieu of their entitlements to the Bonus Shares will be calculated with the following formula:

$$\begin{array}{l} \text{Amount of} \\ \text{Bonus CBs} \\ \text{(in HK\$)} \end{array} = \begin{array}{l} \text{The number of Shares held on the} \\ \text{Record Date for which Bonus CBs} \\ \text{are elected in lieu of Bonus Shares} \end{array} \times 2 \times \text{HK\$}0.01$$

The Bonus CBs will be unlisted with zero coupon rate, will carry no voting rights at general meetings of the Company and will have no maturity date, but will confer upon the holders thereof substantially the same economic interest attached to the Shares (including rights to receive payments representing any dividends declared and paid, assets distributed and shares or other securities issued under a capitalisation issue or scrip dividend scheme of the Company, to the Shareholders as if the outstanding Bonus CBs held by them had been converted into Shares on the relevant record date) which the electing Shareholders would otherwise be entitled to receive under the Bonus Issue had such Shareholders not elected for the Bonus CBs.

The Bonus CBs will not be subject to redemption but will have conversion rights entitling the Bonus CB Holders to convert into an equivalent number of Shares (subject to adjustment) as the number of Bonus Shares which the holder thereof would otherwise be entitled to receive under the Bonus Issue had the Shareholder not elected for the Bonus CBs. In the absence of such election, a Qualifying Shareholder will receive Bonus Shares under the Bonus Issue.

As the Company has no intention to privatise the Company or delist the Shares, the Company has requested HWKFE, Mr. Lei, Victory Peace and Simple View to, and each of them has confirmed that he/it will elect to receive the Bonus CBs in lieu of all of his/its entitlements to the Bonus Shares under the Bonus Issue.

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## LETTER FROM THE BOARD

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Following the close of the Offer and cancellation of all the 624,235,579 Shares accepted under the Offer, the Company has issued and allotted of 798,930 new Shares, 212,807,732 new Shares and 40,761,688 new Shares on 20 November 2012, 23 November 2012 and 4 December 2012 respectively, pursuant to the exercise of the subscription rights attached to the Warrants in an aggregate principal amount of HK\$52,654,248.46 at an adjusted subscription price of HK\$0.207 per Share. As at the Latest Practicable Date, there are 1,680,793,995 Shares in issue, in which 257,563,690 Shares representing approximately 15.32% of the entire issued share capital of the Company and voting rights over Shares are held in the hands of the public Shareholders. Accordingly, the Bonus Issue would give rise to the issue of 515,154,784 Bonus Shares (including 515,127,380 Bonus Shares to be entitled by public Shareholders and 27,404 Bonus Shares to be entitled by Dorest) in the absence of any Shareholder other than HWKFE, Mr. Lei, Victory Peace and Simple View electing to receive the Bonus CBs in lieu of all their entitlements to the Bonus Shares. Each of HWKFE, Mr. Lei, Victory Peace and Simple View will reduce his/its percentage of holding of Shares and the public Shareholders will increase their percentage of holding of Shares correspondingly from approximately 15.32% to approximately 35.19%.

Given that the Bonus Issue is on the basis of two (2) Bonus Shares for every one (1) existing Share held by the Qualifying Shareholders on the Record Date, no fractional entitlements to the Bonus Shares will arise under the Bonus Issue.

### Condition of the Bonus Issue

The Bonus Issue is conditional upon the Stock Exchange granting the listing of, and permission to deal in, the Bonus Shares and the Shares to be allotted and issued upon conversion of the Bonus CBs.

### Principal Terms of the Bonus CBs

The table below summarises the proposed principal terms of the Bonus CBs:

Principal amount	Up to an amount equal to the maximum number of Bonus Shares issuable under the Bonus Issue, multiplied by the nominal value per Bonus Share, in the denomination of HK\$0.01 par value per unit of the Bonus CB
Conversion price	HK\$0.01 per Share, subject to adjustment in accordance with the Deed Poll
Mandatory conversion	On voluntary dissolution, liquidation or winding up of the Company, the Bonus CBs will be mandatorily converted into Shares at the then applicable conversion price
No redemption	The Bonus CBs will not be subject to redemption

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## LETTER FROM THE BOARD

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Conversion period	<p>At any time after the issue of the Bonus CBs, and the conversion date will be deemed to be the 30th Stock Exchange Business Day following the surrender of the Bonus CBs certificates by the Bonus CB(s) Holder(s) with a notice of conversion and the Bonus CB(s) Holder(s) will be deemed to be the holder(s) of the Shares so converted with effect from the aforesaid conversion date</p> <p>If and to the extent that the minimum public float requirements in respect of the Shares under the Listing Rules could not be complied with immediately after the purported exercise of the conversion rights of any Bonus CB Holder, such holder shall not be entitled to exercise such conversion rights</p>
Interest	Zero interest
Distributions	<p>The Bonus CBs will have no entitlement to interest but:</p> <ul style="list-style-type: none"><li>(i) if and whenever the Company shall pay or make any cash dividend or distribution of any kind or any distribution of assets in specie (other than distribution of Shares, debentures or other securities) to its Shareholders (the “<b>Distribution</b>”), the Company shall, subject to compliance with relevant laws, rules, regulations and requirements in Hong Kong and Bermuda, at the same time pay or distribute to each Bonus CB Holder an amount of cash or other assets the subject matter of the Distribution which is equal to (a) the amount of cash or other assets the subject matter of the Distribution per Share receivable by the Shareholders under the Distribution, multiplied by (b) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder then outstanding been converted on the relevant record date for determining entitlement to the Distribution; or</li><li>(ii) if and whenever the Company shall issue any Shares, debentures or other securities, credited as fully-paid, out of or by way of capitalisation of its profits or reserves, and/or share premium account to its Shareholders (the “<b>Capitalisation Issue</b>”), the Company shall, subject to compliance with relevant laws, rules, regulations and requirements in Hong Kong and Bermuda, issue to each Bonus CB Holder either, at the option of the Company (a) such number of Shares, debentures or securities which is equal to (1) the number of such Shares, debentures or securities receivable by the Shareholders in respect of each issued Share held by them under the Capitalisation Issue, multiplied by (2) the number of Shares which the Bonus</li></ul>

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## LETTER FROM THE BOARD

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CB Holder would have become a holder of, had such Bonus CB Holder's Bonus CBs then outstanding been converted on the relevant record date for determining entitlement to the Capitalisation Issue, or (b) further convertible bonds on the same terms and conditions as the Bonus CBs in such amount which would on conversion thereof entitle the Bonus CB Holders of such convertible bonds to such number of Shares as is equal to (1) the number of Shares receivable by the Shareholders in respect of each issued Share held by them under the Capitalisation Issue, multiplied by (2) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder's Bonus CBs then outstanding been converted on the relevant record date for determining entitlement to the Capitalisation Issue

### Transferability

The CB Holder(s) may only assign or transfer the Bonus CBs to the transferee subject to the consent of the Company

The Company will promptly notify the Stock Exchange upon becoming aware of any dealings in the Bonus CBs by any connected person of the Company

### Other rights

If and whenever the Company shall offer to issue Shares or other securities by way of rights to its Shareholders (the "**Rights Issue**"), the Company shall, subject to compliance with the relevant laws, rules, regulations and requirements in Hong Kong and Bermuda, at the same time offer to each Bonus CB Holder for subscription either, at the option of the Company (a) such number of Shares or securities which is equal to (i) the number of such Shares or securities offered by the Company to the Shareholders in respect of each issued Share held by them under the Rights Issue, multiplied by (ii) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder's Bonus CBs then outstanding been converted on the relevant record date for determining entitlement to the Rights Issue, or (b) further convertible bonds on the same terms and conditions as the Bonus CBs in such amount which would on conversion thereof entitle the Bonus CB Holders of such convertible bonds to such number of Shares as is equal to (i) the number of Shares offered for subscription by the Shareholders in respect of each issued Share held by the Shareholders under the Rights Issue, multiplied by (ii) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder's Bonus CBs then outstanding been converted on the relevant record date for determining entitlement to the Rights Issue

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## LETTER FROM THE BOARD

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Further details of the Bonus CBs and the terms thereof are set out in the Appendix to this document.

### **Overseas Shareholders**

This document and the Election Form will not be registered under any securities legislation outside Hong Kong. As at the Record Date, there were five Shareholders whose addresses as shown in the register of members of the Company were in Macau and Singapore. The Board has made enquiries with its legal advisers as to the laws in such jurisdictions pursuant to Rule 13.36(2) of the Listing Rules. Based on the advice from its legal advisers in such jurisdictions, the Board will extend the Bonus Issue and the option to elect to receive Bonus CBs in lieu of all or part of the Shareholders' entitlements to the Bonus Shares only to those Overseas Shareholders whose names appeared on the Register on the Record Date with registered addresses in Macau and Singapore. This document and the Election Form have been sent overseas to such Shareholders.

**All other Shareholders resident outside Hong Kong should consult their professional advisers as to whether or not they are permitted to participate in the Bonus Issue or whether any legal, regulatory or governmental or other consents are required in order to participate in the Bonus Issue or whether any legal, regulatory or governmental or other consents are required or other formalities need to be observed.**

### **Status of the Bonus Shares and Shares Issuable Upon Conversion of the Bonus CBs**

The Bonus Shares and the Shares which may fall to be issued and allotted on conversion of the Bonus CBs, upon issue, will rank *pari passu* in all respects with the Shares then in issue on the date of such issue and allotment, including the entitlement to receive dividends and other distributions on the relevant record date which is on or after the date of issue and allotment of those Shares. Before conversion, the Bonus CBs do not carry voting rights at general meetings of the Company.

### **Closure of Register for the Bonus Issue**

The Register was closed on 5 December 2012 and 6 December 2012.

### **Certificates for Bonus Shares and Bonus CBs**

It is expected that certificates for the Bonus Shares and certificates for the Bonus CBs will be sent by ordinary post on or about 9 January 2013 (such date is indicative only and may be subject to change) after all the conditions for the Bonus Issue have been fulfilled, at the risk of the Shareholders entitled thereto to their respective addresses shown on the Register on the Record Date.

### **Intentions of HWKFE, Mr. Lei, Victory Peace and Simple View**

In order to restore the public float of the Shares, each of HWKFE, Mr. Lei, Victory Peace and Simple View has confirmed that he/it will elect to receive the Bonus CBs in lieu of all of his/its entitlements to the Bonus Shares under the Bonus Issue.

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## LETTER FROM THE BOARD

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### Effects of the Bonus Issue

The Bonus Issue will not lead to any change in the proportional economic interests of the Shareholders in the Company. Other than the expenses incurred in relation to the Bonus Issue, implementation of the Bonus Issue will not alter the underlying assets, business operations, management or financial condition of the Company or the interests of the Shareholders. The Directors consider that the Bonus Issue will not have an adverse effect on the financial position of the Group.

For the effects of the Bonus Issue on the shareholding structure of the Company, please refer to the section headed “EFFECTS OF THE BONUS ISSUE ON SHAREHOLDING STRUCTURE OF THE COMPANY” in this document for details.

**Shareholders should note that the Bonus Shares and the Bonus CBs to be issued under the Bonus Issue may give rise to disclosure requirements under Part XV of the SFO. Shareholders who are in any doubt as to how these provisions may affect them as a result of the issue of the Bonus Shares and the Bonus CBs are recommended to consult their own professional advisers. Shareholders who are in any doubt as to their taxation position are also recommended to consult their own professional advisers.**

### Reasons for the Bonus Issue

Following the close of the Offer and cancellation of all the 624,235,579 Shares accepted under the Offer, the Company has issued and allotted an aggregate of 254,368,350 new Shares pursuant to the exercise of the subscription rights attached to the Warrants in an aggregate principal amount of HK\$52,654,248.46 at an adjusted subscription price of HK\$0.207 per Share. As at the Latest Practicable Date, 257,563,690 Shares, representing approximately 15.32% of the issued share capital of the Company, are held by the public (within the meaning of the Listing Rules). Accordingly, the minimum public float requirement as set out under Rule 8.08(1)(a) of the Listing Rules has not been satisfied.

The Board determined that the Bonus Issue alone is a feasible and practical solution to restore the minimum public float of the Shares. In addition, the Board believed that the implementation of the Bonus Issue for restoring the minimum public float of the Shares have the following advantages:

- (a) it preserves the equity interest of all Shareholders who receive the Bonus Shares only, and in the case of HWKFE, Mr. Lei, Victory Peace, Simple View and any other Shareholders electing to receive the Bonus CBs, their equity interest would be preserved upon full conversion of the Bonus CBs;
- (b) all Shareholders will be treated equally;
- (c) no capital raising will be required, which would potentially incur significant expenses to the Company and may have dilutive effects on existing Shareholders' shareholding in the Company; and
- (d) it will not be subject to or dependent on market conditions.

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## LETTER FROM THE BOARD

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As such, the Board considers that the Bonus Issue, being made for the sole purpose of restoring the minimum public float of the Shares, is fair and reasonable.

Assuming that all Shareholders (other than HWKFE, Mr. Lei, Victory Peace and Simple View who will elect to receive the Bonus CBs in lieu of all their entitlements to the Bonus Shares) electing to receive the Bonus Shares and there are no other changes in the issued share capital of the Company, the percentage of holding of Shares by the public Shareholders will increase from approximately 15.32% as at the Latest Practicable Date to approximately 35.19% as a result of completion of the Bonus Issue.

### **Adjustments of the Exercise Price and Number of Share Options, the Subscription Price of the Warrants and the Conversion Price of the Issued CBs**

Subject to the granting of the listing of, and permission to deal in, the Bonus Shares and the Shares to be allotted and issued upon conversion of the Bonus CBs by the Stock Exchange, adjustments to the exercise price and number of the Share Options, the subscription price of the Warrants and the conversion price of the Issued CBs will be required.

#### *Share Options*

Pursuant to the relevant rules of the share option scheme of the Company, the provision of Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005, the exercise price and number of the Share Options as a result of the Bonus Issue will be adjusted with effect from the day next following the Record Date (i.e. Friday, 7 December 2012) as follows:

<b>Exercisable Period</b>	<b>Existing exercise price per Share <i>HK\$</i></b>	<b>Existing number of Share Options</b>	<b>Adjusted exercise price per Share <i>HK\$</i></b>	<b>Adjusted number of Share Options</b>
17 July 2003 to 16 July 2013	122.141	55,832	40.714	167,496
13 December 2004 to 12 December 2014	112.527	82,347	37.509	247,041
04 February 2005 to 03 February 2015	116.486	137,316	38.829	411,948
30 December 2005 to 29 December 2015	52.361	87,869	17.454	263,607
21 November 2006 to 20 November 2016	59.942	97,043	19.981	291,129
25 May 2007 to 24 May 2017	90.930	241,961	30.310	725,883
27 June 2007 to 26 June 2017	90.475	114,094	30.158	342,282
23 October 2007 to 22 October 2017	42.977	479,721	14.326	1,439,163
21 August 2008 to 20 August 2018	5.543	1,680,015	1.848	5,040,045

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## LETTER FROM THE BOARD

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### *Warrants*

Pursuant to the terms and conditions under the warrant instrument issued by the Company on 29 June 2011, the subscription price of the Warrants will be adjusted with effect from the day next following the Record Date (i.e. Friday, 7 December 2012) as follows:

<b>Subscription Period</b>	<b>Existing subscription price per Share</b> <i>HK\$</i>	<b>Adjusted subscription price per Share</b> <i>HK\$</i>
29 June 2011 to 28 December 2012	0.207	0.069

### *Issued CBs*

Pursuant to the terms and conditions of the instrument issued by the Company on 7 July 2011, the conversion price of the Issued CBs will be adjusted with effect from the day next following the Record Date (i.e. Friday, 7 December 2012) as follows:

<b>Conversion Period</b>	<b>Existing conversion price per Share</b> <i>HK\$</i>	<b>Adjusted conversion price per Share</b> <i>HK\$</i>
7 July 2011 to 6 July 2016	0.36	0.12

Save for the adjustments to the exercise price and number of the Share Options, the subscription price of the Warrants and the conversion price of the Issued CBs as set out above, the terms and conditions of the Share Options, the Warrants and the Issued CB remain unchanged.

The Company's auditors have been appointed to certify the above adjustments with respect to the exercise price and number of the Share Options, the subscription price of the Warrants and the conversion price of the Issued CBs.

Detailed information relating to the adjustments of the exercise price and number of Share Options, the subscription price of the Warrants and the conversion of the Issued CBs as a result of the Bonus Issue has been disclosed in the Company's announcement dated 6 December 2012.

Save for the Share Options, the Warrants and the Issued CBs, as at the Latest Practicable Date, the Company had no other outstanding options, warrants or convertible securities to subscribe for any securities of the Company.



## LETTER FROM THE BOARD

### Effects of the Bonus Issue on Shareholding Structure of the Company

The table below shows the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Bonus Issue, if only HWKFE, Mr. Lei, Victory Peace and Simple View elect to receive the Bonus CBs in lieu of all their entitlements to the Bonus Shares; and (iii) immediately after completion of the Bonus Issue and if the Bonus CBs are converted in full:

	As at the		Immediately after completion of the Bonus Issue, if only HWKFE, Mr. Lei, Victory Peace and Simple View elect to receive the Bonus CBs in lieu of all their entitlements to the Bonus Shares		Immediately after completion of the Bonus Issue and if the Bonus CBs are converted in full	
	Latest Practicable Date				(Note 2)	
	Shares	Approx. %	Shares	Approx. %	Shares	Approx. %
Heung Wah Keung Family Endowment Limited	1,109,800,613	66.03	1,109,800,613	50.54	3,329,401,839	66.03
Mr. Lei Hong Wai Simple View Investment Limited	9,425,652	0.56	9,425,652	0.43	28,276,956	0.56
Victory Peace Holdings Limited	235,990,338	14.04	235,990,338	10.75	707,971,014	14.04
Dorest Company Limited (Note 1)	68,000,000	4.05	68,000,000	3.09	204,000,000	4.05
	13,702	0.00	41,106	0.00	41,106	0.00
<b>Sub-total</b>	<b>1,423,230,305</b>	<b>84.68</b>	<b>1,423,257,709</b>	<b>64.81</b>	<b>4,269,690,915</b>	<b>84.68</b>
<b>Public Shareholders</b>	<b>257,563,690</b>	<b>15.32</b>	<b>772,691,070</b>	<b>35.19</b>	<b>772,691,070</b>	<b>15.32</b>
<b>Total</b>	<b>1,680,793,995</b>	<b>100.00</b>	<b>2,195,948,779</b>	<b>100.00</b>	<b>5,042,381,985</b>	<b>100.00</b>

*Notes:*

- As at the Latest Practicable Date, Dorest has not confirmed that it will elect to receive the Bonus CBs in lieu of all of its entitlements to the Bonus Shares under the Bonus Issue.
- For illustration purpose only. Under the terms of the Deed Poll, any conversion of the Bonus CB (i) shall not trigger a mandatory offer obligation on the part of the Bonus CB Holder and its party(ies) acting in concert as defined under Rule 26 of the Hong Kong Code on Takeovers and Mergers; and (ii) shall not cause the public float of the Company unable to meet the requirement under Rule 8.08 of the Listing Rules.

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## LETTER FROM THE BOARD

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### **Listing, Dealings and Settlement**

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Bonus Shares and the Shares to be issued and allotted upon conversion of the Bonus CBs. Subject to fulfillment of the condition under the section headed “Condition of the Bonus Issue” above, certificates for the Bonus Shares and the Bonus CBs are expected to be despatched by ordinary post to Shareholders entitled thereto to their respective addresses shown on the Register on the Record Date at their own risk on or about Wednesday, 9 January 2013. In the case of joint shareholdings, the certificates for the Bonus Shares and the Bonus CBs will be despatched by ordinary post to the address of the Shareholder first named in the Register in respect of such joint shareholding at their own risk.

Dealings in the Bonus Shares are expected to commence on Thursday, 10 January 2013.

Subject to the granting of the listing of, and permission to deal in, the Bonus Shares and the Shares to be issued and allotted upon conversion of the Bonus CBs, as well as compliance with the stock admission requirements of HKSCC, the Bonus Shares and the Shares to be issued and allotted upon conversion of the Bonus CBs will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of their dealings on the Stock Exchange or such other date as shall be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

None of the Shares are listed or dealt in on any stock exchange other than the Stock Exchange, and the Bonus Shares and the Shares to be issued and allotted upon conversion of the Bonus CBs will not be listed or dealt on any stock exchange other than the Stock Exchange at the time of the issue and allotment of the Bonus Shares, and no such listing or permission to deal is being or is proposed to be sought. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements for the Bonus Shares and the Shares to be issued and allotted upon conversion of the Bonus CBs and how such arrangements affect their rights and interests.

Bonus Shares issued to the Qualifying Shareholders pursuant to an election to receive part of their entitlements under the Bonus Issue in the form of Bonus Shares may be allocated in odd lots (of less than a board lot of 50,000 Shares). Qualifying Shareholders should be aware that odd lots usually trade at a discount to the price of board lots.

### **Election Form**

**The Election Form has been prepared for use by the Qualifying Shareholders who wish to receive their entitlements under the Bonus Issue wholly in the Bonus CBs or partly in Bonus Shares and partly in Bonus CBs in lieu of Bonus Shares.** Please read carefully the instructions below and the instructions printed on the Election Form.

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## LETTER FROM THE BOARD

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**(a) To receive only Bonus Shares**

If you wish to receive only Bonus Shares under the Bonus Issue, you do not need to take any action. Therefore, please DO NOT return the Election Form.

**(b) To receive only Bonus CBs**

If you wish to receive only Bonus CBs in lieu of all of your entitlements to the Bonus Shares under the Bonus Issue, please insert a “✓” in Box C of the Election Form, then SIGN, DATE and RETURN the Election Form.

**(c) To receive partly Bonus Shares and partly Bonus CBs**

If you wish to receive your entitlements under the Bonus Issue partly in Bonus Shares and partly in Bonus CBs, please insert in Box D of the Election Form the number of Shares which you held on the Record Date for which you require your entitlements under the Bonus Issue to be issued in the Bonus CBs in lieu of Bonus Shares, then, SIGN, DATE and RETURN the Election Form.

If you do not specify the number of Shares in respect of which you wish to receive Bonus CBs in Box D, you will be deemed to have elected to receive ONLY Bonus Shares in respect of ALL the Shares registered in your name on the Record Date.

If you elect to receive Bonus CBs in respect of a greater number of Shares than your registered holding of Shares on the Record Date, you will be deemed to have elected to receive ONLY Bonus CBs in respect of ALL the Shares registered in your name on the Record Date. Therefore, you will receive only Bonus CBs in lieu of all of your entitlements to the Bonus Shares under the Bonus Issue.

**The Election Forms should be completed and returned in accordance with the instructions printed thereon, so that they are received by the Company’s branch share registrar in Hong Kong no later than 4:30 p.m. on Wednesday, 2 January 2013 at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.**

**The latest time for return of the Election Form mentioned above will not be valid if there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning:**

- a. in force in Hong Kong at any local time at or before 12:00 noon and no longer in force after 12:00 noon on Wednesday, 2 January 2013. Instead, the deadline for the submission of the Election Form will be at 5:00 p.m. on the same day; and**
- b. in force in Hong Kong at any local time between 12:00 noon and 4:30 p.m. on Wednesday, 2 January 2013. Instead, the deadline for the submission of the Election Form will be rescheduled to 4:30 p.m. on the next business day which does not have either of those warning in force at any time between 9:00 a.m. and 4:30 p.m..**

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## LETTER FROM THE BOARD

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**Failure to complete and return the Election Form in accordance with the instructions printed thereon will result in the relevant Qualifying Shareholder's entitlements under the Bonus Issue being issued wholly in the form of Bonus Shares. No acknowledgement of receipt of the Election Form will be issued. No elections to receive Bonus CBs in lieu of all (or part) of the Qualifying Shareholders' entitlements to the Bonus Shares may, after the relevant Election Form is signed and returned to the branch share registrar of the Company, be in any way withdrawn, revoked, superseded or altered.**

### **Stamp Duty**

Dealings in the Bonus Shares, the Bonus CBs and the Shares to be issued on conversion of the Bonus CBs will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy, or any other applicable fees and charges in Hong Kong. The Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding, disposing of or dealing in the Bonus Shares, the Bonus CBs and the Shares to be issued and allotted upon conversion of the Bonus CBs. It is emphasized that none of the Company, its Directors or any other parties involved in the Bonus Issue accepts responsibility for any tax implication or liabilities of the Shareholders.

### **ACTION TO BE TAKEN**

An Election Form is also enclosed with this document to the Qualifying Shareholders. Qualifying Shareholders who wish to elect for the Bonus CBs must complete and return the Election Form in accordance with the instructions printed thereon. Failure to do so may result in such election being void or having no effect.

**No action needs to be taken by Shareholders who wish to receive Bonus Shares only. Shareholders will receive Bonus CBs only if they make an election to receive the Bonus CBs under the Election Form.**

### **ATTENTION**

Although each Qualifying Shareholders will be given an option to elect to receive the Bonus CBs in lieu of all (or part) of his/her/its entitlements to the Bonus Shares under the Bonus Issue, the Board would like to draw the attention of the Shareholders that:

- (a) although the Bonus CBs have substantially the same economic interest attached to the Shares (including rights to receive payments representing any dividends declared and paid, assets distributed and shares or other securities issued under a capitalisation issue or scrip dividend scheme of the Company), they carry no interest and no voting rights at general meetings of the Company;
- (b) the Bonus CBs will be unlisted and irredeemable, they will have less marketability given the realisation of the Bonus CBs requires their conversion into Shares and subsequently selling the Shares in the market; and

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## LETTER FROM THE BOARD

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- (c) the Bonus CBs can only be assigned or transferred to the transferee subject to the consent of the Company.

Shareholders should also be aware that in the event that the result of the Bonus Issue cannot restore the minimum public float of the Company in compliance with the Rule 8.08 of the Listing Rules, the Board will consider other additional or alternative methods, including placing of new Shares, and/or requesting substantial Shareholders to assist in the implementation of an additional or alternative plan to be adopted by the Company to meet the requirements of Rule 8.08(1) of the Listing Rules. Until the completion of the Bonus Issue, it is not possible for the Board to determine whether additional or alternative methods will be proposed by the Board. The Company will make further announcement in this regard.

**Shareholders are reminded to consult their licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser in electing the Bonus Shares or the Bonus CBs in lieu of all (or part) of his/her/its entitlements to the Bonus Shares under the Bonus Issue.**

**Shareholders, holders of the Warrants and potential investors of the Company should note that the Bonus Issue is conditional upon fulfillment of condition precedent of the Bonus Issue. Accordingly, the Bonus Issue may or may not proceed. Furthermore, it is not possible for the Board to determine whether additional or alternative methods, including placing of new Shares, and/or requesting substantial Shareholders to assist in the implementation of an additional or alternative plan to be adopted by the Company to meet the requirements of Rule 8.08(1) of the Listing Rules, will be proposed by the Board. Shareholders, holders of the Warrants and potential investors of the Company are reminded to exercise caution when dealings in the securities of the Company.**

### **STATUS OF THE WAIVER FROM STRICT COMPLIANCE WITH RULE 8.08(1)(A) OF THE LISTING RULES**

Under Rule 8.08(1)(a) of the Listing Rules, at least 25% of the Company's total issued share capital must at all times be held by the public. Immediately after the close of the Offer on 9 November 2012 and the cancellation of all the Shares in respect of which the Offer has been accepted, only 251,745,943 Shares, representing approximately 17.65% of the issued Shares (which is lower than the minimum prescribed percentage of 25% applicable to the Company) are held by the public. This requirement is strictly applied, with the exception that temporary waivers from the minimum public float requirements are specifically contemplated where the minimum requirement is not met upon completion of a general offer as described under Rule 8.08(1)(c). Accordingly, the waiver application was made to the Stock Exchange by the Company for the temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules.

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## LETTER FROM THE BOARD

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On 27 November 2012, the Company received a confirmation from the Stock Exchange that the waiver application for Rule 8.08(1)(a) of the Listing Rules was rejected by the Stock Exchange. The Stock Exchange is of the view that the non-compliance with the minimum public float requirement of the Company is resulted from the Offer, which is a corporate action under the control of Company and its management. Accordingly, temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules was not granted by the Stock Exchange as at the Latest Practicable Date.

Yours faithfully,  
For and on behalf of the Board  
**Heung Wah Keung**  
*Chairman*

The Bonus CBs will be issued subject to and with the benefit of the Deed Poll to be executed by the Company and they will be issued in registered form and will form one class and rank pari passu in all respects with each other.

The principal terms and conditions of the Bonus CBs will be set out in the certificates for the Bonus CBs and will include provisions to the effect set out below.

The Bonus CB Holders will be entitled to the benefit of, be bound by, and be deemed to have notice of all such terms and conditions and the provisions of the Deed Poll, a copy of the draft of which is available for inspection by the Shareholders at the head office and principal place of business of the Company located at Unit 3409 Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours on any Business Day, up to and including 2 January 2013.

## **1. STATUS AND VOTING RIGHTS**

### **(A) Status**

The Bonus CB constitutes direct, unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Company under the Bonus CB shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations. No application will be made for a listing of the Bonus CB on the Stock Exchange or any other stock exchange.

### **(B) Voting Rights**

The Bonus CB Holder shall not be entitled to attend or vote at any meetings of the Company by reason only it being the Bonus CB Holder.

## **2. FORM AND TITLE**

### **(A) Form**

The Bonus CB is issued in registered form. A bond certificate (each, a “**Certificate**”) will be issued to each Bonus CB Holder in respect of its registered holding of the Bonus CB. The Bonus CB and the Certificate will be numbered with an identifying number which will be recorded on the relevant Certificate and in the register of Bonus CB Holders (the “**CB Register**”) kept by or on behalf of the Company.

### **(B) Title**

The holder of the Bonus CB whose name is entered in the CB Register will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it or any entry on the CB Register) and no person will be liable for so treating the holder.

**3. TRANSFERS OF BONUS CB AND ISSUE OF CERTIFICATES****(A) Transfer**

The Bonus CB Holder may only assign or transfer the Bonus CB to the transferee subject to the consent of the Company. The Company will promptly notify the Stock Exchange upon becoming aware of any dealings in the Bonus CB by any connected person of the Company.

The Bonus CB may be assigned or transferred in whole or in part (in whole multiples of HK\$100,000) of its outstanding principal amount and the Company shall facilitate any such assignment or transfer of the Bonus CB, including making any necessary applications to the Stock Exchange for the said approval (if required).

Notwithstanding the condition provided in this paragraph 3(A), the Bonus CB Holder shall be permitted at any time to transfer the Bonus CB to a transferee who is a wholly-owned subsidiary of the Bonus CB Holder or a holding company of the Bonus CB Holder who owns the entire issued share capital of the Bonus CB Holder provided that the Bonus CB will be re-transferred to the Bonus CB Holder immediately upon the transferee ceasing to be a wholly-owned subsidiary of the Bonus CB Holder or a holding company of the Bonus CB Holder who owns the entire issued share capital of the Bonus CB Holder.

**(B) Transfer form**

A transfer of the Bonus CB shall be effected by completing and signing, by both the transferor and the transferee under the hand of one of their officers duly authorised in writing or otherwise by a duly authorised person thereof, a prescribed form of transfer which is available to be obtained at the office of the Company's branch share registrar in Hong Kong at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (or such other registrar appointed from time to time to act as the registrar and transfer agent of the Bonus CB) (the "**CB Registrar**").

**(C) Registration**

The Certificate must be delivered for registration during normal business hours (Monday to Friday, 9:00 a.m. to 4:30 p.m.) at the CB Registrar accompanied by (i) a duly executed transfer form (which is available at the above office of Company's branch share registrar in Hong Kong); (ii) in case of the execution of the transfer form on behalf of a corporation by its officers, the authority of that person or those persons to do so; and (iii) such other evidence (including legal opinions) as the Company may reasonably require if the transfer form is executed by some other person on behalf of the Bonus CB Holder. The Company shall, within ten (10) Business Days of receipt of such documents from the Bonus CB Holder, cancel the existing Certificate and issue a new Certificate in favour of the transferee or assignee as applicable.



**(D) Delivery of new Certificates**

The Certificate to be issued upon a transfer of Bonus CB will, within ten (10) Business Days of receipt by the CB Registrar of the form of transfer accompanied by the documents referred to in paragraph 3(C) above, be made available for personal collection by the holder entitled to the Bonus CB during normal business hours (Monday to Friday, 9:00 a.m. to 4:30 p.m.) at the CB Registrar and upon production of such identification papers as may be reasonably requested by the Company.

Where some but not all the amount of the Bonus CB in respect of which a Certificate is issued are to be transferred or converted, a new Certificate in respect of the Bonus CB not so transferred or converted will, within ten (10) Business Days of delivery of the original Certificate to the CB Registrar, be made available for collection by such holder during normal business hours (Monday to Friday, 9:00 a.m. to 4:30 p.m.) at the CB Registrar upon production of such identification papers as may be reasonably requested by the Company.

**(E) Formalities free of charge**

Registration of transfer of the Bonus CB will be effected upon (a) payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each Certificate cancelled or each new Certificate issued, whichever number of the Certificates cancelled/issued is higher; and (b) payment (or the giving of such indemnity as the Company may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

**(F) Closure of CB Register**

The Bonus CB Holder may not require the transfer of the Bonus CB to be registered during the period of seven days ending on the due date for any payment of any interest on the Bonus CB if any.

#### 4. DISTRIBUTIONS

The Bonus CB will have no entitlement to interest but:

- (a) if and whenever the Company shall pay or make any cash dividend or distribution of any kind or any distribution of assets in specie (other than the Capitalisation Issue referred to in condition 4(b) below) to its Shareholders (the “**Distribution**”), the Company shall, subject to compliance with relevant laws, rules, regulations and requirements in Hong Kong and Bermuda, at the same time pay or distribute to each Bonus CB Holder an amount of cash or other assets the subject matter of the Distribution which is equal to (a) the amount of cash or other assets the subject matter of the Distribution per Share receivable by the Shareholders under the Distribution, multiplied by (b) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder’s Bonus CB then outstanding been converted on the relevant date for determining entitlement to the Distribution;
- (b) if and whenever the Company shall issue any Shares, debentures or other securities, credited as full-paid, out of or by way of capitalisation of its profits or reserves, and/or share premium account to its Shareholders (the “**Capitalisation Issue**”), the Company shall, subject to compliance with relevant laws, rules, regulations and requirements in Hong Kong and Bermuda, issue to each Bonus CB Holder either, at the option of the Company (a) such number of Shares, debentures or securities which is equal to (1) the number of such Shares, debentures or securities receivable by the Shareholders in respect of each issued Share held by them under the Capitalisation Issue, multiplied by (2) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder’s Bonus CB then outstanding been converted on the relevant record date for determining entitlement to the Capitalisation Issue, or (b) further convertible bonds on the same terms and conditions as the Bonus CB in such amount which would on conversion thereof entitle the holders of such convertible bonds to such number of Shares as is equal to (1) the number of Shares receivable by the Shareholders in respect of each issued Share held by them under the Capitalisation Issue, multiplied by (2) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder’s Bonus CB then outstanding been converted on the relevant record date for determining entitlement to the Capitalisation Issue; and

- (c) if and whenever the Company shall offer to issue Shares or other securities by way of rights to its Shareholders (the “**Rights Issue**”), the Company shall, subject to compliance with the relevant laws, rules, regulations and requirements in Hong Kong and Bermuda, at the same time offer to each Bonus CB Holder for subscription either, at the option of the Company (a) such number of Shares or securities which is equal to (i) the number of such Shares or securities offered by the Company to the Shareholders in respect of each issued Share held by them under the Rights Issue, multiplied by (ii) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder’s Bonus CB then outstanding been converted on the relevant record date for determining entitlement to the Rights Issue, or (b) further convertible bonds on the same terms and conditions as the Bonus CB in such amount which would on conversion thereof entitle the holder of such convertible bonds to such number of Shares as is equal to (i) the number of Shares offered for subscription by the Shareholders in respect of each issued Share held by the Shareholders under the Rights Issue, multiplied by (ii) the number of Shares which the Bonus CB Holder would have become a holder of, had such Bonus CB Holder’s Bonus CB then outstanding been converted on the relevant record date for determining entitlement to the Rights Issue.

## 5. CONVERSION

### (A) Conditions

Provided that any conversion of the Bonus CB (i) does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Bonus CB Holder which exercised the conversion right and its party(ies) acting in concert as defined under the Takeovers Code; and (ii) will not cause the public float of the Company unable to meet the requirement under Rule 8.08 of the Listing Rules, the Bonus CB Holder shall, subject to compliance with the procedures set out in the Conditions, have the right at any time after the issue of the Bonus CB to convert the whole or part of the outstanding principal amount of the Bonus CB registered in its name into Shares (the “**Conversion Rights**”).

For the avoidance of doubt, no conversion of the Bonus CB will be allowed in the event that the minimum public float requirements in respect of the Shares under Rule 8.08 of the Listing Rules could not be complied at the time of the conversion.

### (B) Number of conversion Shares

The number of Shares to be issued on each conversion will be determined by dividing the principal amount specified in the Conversion Notice (as defined below) by the Conversion Price (as defined below) applicable on the Conversion Date (as defined below). Fractions of Shares will not be issued on conversion and the amount representing such fraction will be retained by the Company and no payment will be made to the Bonus CB Holder in respect of such fraction, provided always that for the purpose of determining whether any (and if so what) fraction of a share arises, if the Conversion Right represented by a Certificate and any one or more other Certificates are exercised on the same Conversion Date by the Bonus CB Holder, then the Conversion Rights represented by the Bonus CB shall be aggregated.

**(C) Conversion Price**

The conversion price (the “**Conversion Price**”) for the Bonus CB shall be equal to HK\$0.01 per Share, subject to adjustments as hereinafter described.

The Deed Poll contains detailed provisions relating to the adjustment of the Conversion Price. The following is a summary of, and is subject to, the provisions of the Deed Poll:

- (a) The Conversion Price shall (except as otherwise mentioned in the following sub-paragraphs of this paragraph 5(C)) be adjusted as provided in the Deed Poll in case of an alteration of the nominal amount of the Shares by reason of any consolidation or subdivision.
- (b) Except as mentioned in the following sub-paragraphs of this paragraph 5(C), no such adjustment as referred to in sub-paragraph (a) of this paragraph 5(C) shall be made in respect of:
  - (i) an issue of fully paid Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon the exercise of any rights (including any conversion of the Bonus CB) to acquire Shares;
  - (ii) an issue of Shares or other securities of the Company or any subsidiary of the Company wholly or partly convertible into, or carrying rights to acquire, Shares to officers or employees of the Company or any of its subsidiaries pursuant to any employee or executive share scheme;
  - (iii) an issue by the Company of Shares or by the Company or any subsidiary of the Company of securities wholly or partly convertible into or carrying rights to acquire Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;
  - (iv) an issue of fully paid Shares by way of capitalisation of all or part of any subscription right reserve, or any similar reserve which has been or may be established pursuant to the terms of any securities wholly or partly convertible into or carrying rights to acquire Shares; or
  - (v) an issue of Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Shares so issued is capitalised and the market value (calculation as provided in the Deed Poll) of such Shares is not more than 120 per cent. of the amount of dividend which holders of the Shares could elect to or would otherwise receive in cash.

- (c) Notwithstanding the provisions referred to in sub-paragraphs (a) and (b) of this paragraph 5(C), in any circumstances where the Directors shall consider that an adjustment to the Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different rate or with a different time from that provided for under the said provisions, the Company may appoint an approved financial advisor or the auditors of the Company for the time being to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such approved financial advisor or auditors of the Company for the time being (as the case may be) shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner (including, without limitation, making an adjustment calculated on a different basis and/or the adjustment shall take effect from such other date and/or time) as shall be certified by such approved financial advisor or auditors of the Company for the time being (as the case may be) to be in its opinion appropriate.
- (d) If the Company or any subsidiary of the Company shall in any way modify the rights attached to any share or loan capital so as wholly or partly to convert or make convertible such share or loan capital into, or attach thereto any rights to acquire, Shares, the Company shall appoint an approved financial advisor or the auditors of the Company for the time being to consider whether any adjustment to the Conversion Price is appropriate (and if such approved financial advisor or auditors of the Company for the time being (as the case may be) shall certify that any such adjustment is appropriate the Conversion Price shall be adjusted accordingly).
- (e) Any adjustment to the Conversion Price shall be made to the nearest one-tenth of a cent so that any amount under half one-tenth of a cent shall be rounded down and any amount of half one-tenth of a cent or more shall be rounded up. No adjustment shall be made to the Conversion Price in any case in which the amount by which the same would be reduced would be less than one-tenth of a cent and any adjustment which would otherwise then be required shall not be carried forward.
- (f) Every adjustment to the Conversion Price will be certified by the auditors of the Company for the time being or an approved financial advisor and notice of each adjustment (giving the relevant particulars) will be given to the Bonus CB Holder. Any such certificate(s) of the auditors of the Company for the time being or (as the case may be) of the relevant approved financial advisor will be available for inspection at the principal place of business of the Company in Hong Kong or any other office notified to the Bonus CB Holder (the “**Specified Office**”).

- (g) If application of any of the provisions referred to in this paragraph 5(C) would but for this sub-paragraph (g) result in the Conversion Price being reduced so that on conversion Shares shall fall to be issued at a discount to their nominal value, then the Conversion Price shall be adjusted to an amount equal to the nominal value of one Share.

**(D) Conversion Procedure**

- (i) Conversion Notice: To exercise the Conversion Right attaching to the Bonus CB, the holder thereof must complete, execute and deposit by personal delivery at its own expense during normal business hours (Monday to Friday, 9:00 a.m. to 4:30 p.m.) at the CB Registrar) a notice of conversion (a “**Conversion Notice**”) in the prescribed form (which is available at the CB Registrar) together with the Certificate to the CB Registrar. The Conversion Notice once given shall not be revocable. In each case, compliance must be made by the Bonus CB Holder of all applicable exchange control, fiscal and other laws and regulations relating to the exercise of the Conversion Rights and the allotment and issue to it and the holding by it of the Shares.

Any calculation by the Company of the number of Shares falling to be issued on a conversion shall, in the absence of manifest error, be conclusive and binding on the Bonus CB Holder.

- (ii) Conversion Date: in respect of an exercise of a Conversion Right, the conversion date (the “**Conversion Date**”) in respect of the Bonus CB will be deemed to be the 30th Business Day of the Stock Exchange following the surrender of the Certificate by the Bonus CB Holder(s) with the Conversion Notice and the Bonus CB Holder(s) will be deemed to be the holder(s) of the conversion Shares with effect from the aforesaid conversion date.
- (iii) Stamp Duty etc.: The Company shall pay any capital, stamp and registration duties arising on the allotment and issue of the conversion Shares.
- (iv) Delivery of share certificates: As soon as practicable, and in any event not later than 10 Business Days after the Conversion Date, the Company shall register the Bonus CB Holder (or such other person(s) as it may direct in the Conversion Notice) as holder(s) of the relevant number of Shares in the Register and will be made available for personal collection by the holder of such Bonus CB during normal business hours (Monday to Friday, 9:00 a.m. to 4:30 p.m.) at the CB Registrar for the time being) or send by post at the risk of the Bonus CB Holder to the address of the Bonus CB Holder in the Register a certificate (or certificates) for the relevant Shares in the name of the Bonus CB Holder or such other person(s) as it may direct in the Conversion Notice.

If the number of Shares falling to be allotted and issued upon the exercise of any Conversion Rights shall exceed the number of unissued Shares in respect of which approval for listing has been granted by the Listing Committee of the Stock Exchange, the performance of the obligations of the Company under this paragraph 5(D)(iv) regarding the issue, deposit and delivery of Shares shall, in respect only of such excess number of Shares, be postponed to the Business Day next following the day on which approval for listing of such Shares has been granted (provided that such postponement shall not exceed 21 days after the Conversion Date).

- (v) **Ranking of Shares:** The Shares issued upon conversion of the Bonus CB will in all respects rank *pari passu* with the Shares in issue on the date of allotment and issue of such Shares and accordingly shall entitle the holders to participate in all dividends or other distributions declared, paid or made on or after the relevant Conversion Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the relevant Conversion Date. A holder of Shares issued on conversion of the Bonus CB shall not be entitled to any rights the record date for which precedes the relevant Conversion Date.

**(E) Company's Undertakings**

The Company will give certain undertakings in the Deed Poll that so long as any amount of the Bonus CB remain outstanding it will (a) maintain a listing for all the issued Shares on the Stock Exchange, and (b) subject to the provisions of paragraph 5(D)(iv) above, obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights on the Stock Exchange and will forthwith give notice to the Bonus CB Holder of the de-listing of the Shares by the Stock Exchange.

**(F) Consolidation, Amalgamation or Merger**

In the case of any consolidation, amalgamation or merger of the Company with any other corporation (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation), or in the case of any sale or transfer of all, or substantially all, of the assets of the Company, the Company will forthwith notify the Bonus CB Holder of such event in accordance with paragraph 11 below and (subject to any restriction prescribed by law) cause the corporation resulting from such consolidation, amalgamation or merger or the corporation which shall have acquired such assets, as the case may be, to execute an instrument supplemental to the Deed Poll to ensure that the Bonus CB Holder will have the right (during the period in which such Bonus CB shall be convertible) to convert such Bonus CB into the class and amount of shares and other securities and property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares which would have become liable to be issued upon conversion of such Bonus CB immediately prior to such consolidation, amalgamation, merger, sale or transfer. The above provisions of this paragraph 5(F) will apply in the same way to any subsequent consolidations, amalgamations, mergers, sales or transfers.

**6. PAYMENTS****(A) Method of payment**

Any payment payable under the Bonus CB which would otherwise be due on a non-Business Day shall instead be due and payable on the immediately succeeding Business Day. All payments due under the conditions to the Bonus CB will be paid to the Bonus CB Holder as shown on the CB Register at the close of business on the due date for payment. Payments will be made net of any applicable bank charges by transfer in Hong Kong dollars to the registered account of the Bonus CB Holder or by Hong Kong dollar cheque drawn on a bank in Hong Kong mailed at the risk of the Bonus CB Holder to the registered address of the Bonus CB Holder if it does not have a registered account.

**(B) Registered Accounts and Addresses**

For the purposes of this paragraph 6, the Bonus CB Holder's registered account means the Hong Kong dollar account maintained by or on behalf of it with a bank in Hong Kong, details of which appear on the CB Register at the close of business on the Business Day before the due date for payment, and the Bonus CB Holder's registered address means its address appearing on the CB Register at that time.

**(C) Fiscal Laws**

All payments are subject in all cases to any applicable fiscal or other laws and regulations. No commissions or (save as provided in paragraph 6(A) above) expenses shall be charged to the Bonus CB Holder in respect of such payments.

**(D) Payment Initiation**

Where payment is to be made by transfer to a registered account, payment instructions will be given and, where payment is to be made by cheque, the cheque will be mailed, on the due date for payment.

**7. REDEMPTION, CANCELLATION****(A) Redemption**

The Bonus CB shall not be subject to redemption save and except that in the event of voluntary dissolution, liquidation or winding up of the Company, the Bonus CB shall be mandatorily converted into the Shares at the then applicable Conversion Price.

**(B) Cancellation**

Any amount of the Bonus CB which is converted will forthwith be cancelled. Certificate in respect of the Bonus CB cancelled will be forwarded to or to the order of the Company and such Bonus CB may not be reissued or resold.



**8. TAXATION**

The Company shall be entitled to withhold from all payments of principal by the Company any amounts required to be withheld under the applicable law, rule and regulations for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature (including without limitation, deduction or withholding on account of taxation on the overall turnover, income, taxation income or capital gain of the Bonus CB Holder imposed or levied by or on behalf of Hong Kong or other jurisdiction or any authority thereof or therein having the power to tax). If the Company is so required to make such withholdings or deductions, payment of the net amount after such deduction or withholdings to the Bonus CB Holder will constitute full discharge of the Company's obligations to make such payments.

**9. RESTRICTED HOLDERS**

No Conversion Rights represented by the Bonus CB may be exercised by any person who is a Restricted Holder (as hereinafter defined), and the exercise of any Conversion Rights by the Bonus CB Holder shall constitute a confirmation, representation and warranty by the Bonus CB Holder to the Company that the Bonus CB Holder is not a Restricted Holder and that all necessary governmental, regulatory or other consents or approvals and all formalities have been obtained and observed by the Bonus CB Holder to enable it to exercise legally and validly the relevant Conversion Rights, to hold (or, if applicable, to have such person(s) as it may nominate in the Conversion Notice hold) the Shares allotted and issued upon exercise of the Conversion Rights and the Company to legally and validly allot the Shares. For the purposes of this paragraph, a "Restricted Holder" means a Bonus CB Holder (or, if applicable, such person(s) as it may nominate in the Conversion Notice to whom the Shares arising on conversion are to be issued) who is a resident or national of any jurisdiction other than Hong Kong under the laws and regulations of which an exercise of Conversion Rights by such Bonus CB Holder in the manner provided in the Conversion Notice and the conditions or the performance by the Company of the obligations expressed to be assumed by it under the Deed Poll or the conditions to the Bonus CB or the allotment and issue and holding of the conversion Shares cannot be carried out lawfully or cannot be carried out lawfully without the Company first having to take certain actions in such jurisdiction.

**10. REPLACEMENT OF CERTIFICATES**

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced the Certificate upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Company may reasonably require and on payment of reasonable fee as the Company may determine as permitted under the Company's bye-laws or the Companies Act 1981 of Bermuda. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

**11. NOTICES**

- (A) The Bonus CB Holder shall register with the Company an address either in Hong Kong or elsewhere to which notices can be sent and if the Bonus CB Holder shall fail to do so, notice may be given to the Bonus CB Holder by sending the same in any of the manners hereinafter mentioned to his last known place of business or residence or, if there be none, by posting up the same for three days at the Specified Office for the time being of the Company.

- (B) A notice shall be given by personal delivery, prepaid registered mail (registered airmail in the case of an overseas address to where airmail service is available).
- (C) Notices sent by personal delivery or prepaid registered mail or the posting of the same at the Specified Office as provided by sub-paragraph (A) of this paragraph shall be deemed to have been served on the first day after such delivery or the deposit of the letter with postal authorities or in a postbox or, as the case may be, the first day after the first posting up of such notice.
- (D) All notices to the Bonus CB Holder shall be validly given if mailed to them at its address in the CB Register.
- (E) Any communication to the Company shall be by letter delivered personally or by facsimile transmission to it at Unit 3409, Shun Tak Centre, West Tower, 168 – 200 Connaught Road Central, Hong Kong or (if different) its head office or principal place of business for the time being in Hong Kong, fax no. (+852) 2191-9888, Attention: Company Secretary (or such other number as shall be notified in writing by the Company to the Bonus CB Holder). Any such communication will take effect, in the case of delivery, at the time of delivery or, in the case of facsimile transmission, at the time of despatch.

## **12. GOVERNING LAW AND JURISDICTION**

The Bonus CB and the Deed Poll are governed by, and shall be construed in accordance with the laws of Hong Kong. In relation to any legal action or proceedings arising out of or in connection with the Deed Poll and/or the Bonus CB, the Company has in the Deed Poll and the Bonus CB Holder shall irrevocably submit to the non-exclusive jurisdiction of courts of Hong Kong.